

THE SOVIET ECONOMY

Since 1928 the Soviet Union has developed rapidly from a predominantly agricultural, industrially underdeveloped country to the second largest economy in the world. Forced draft industrialization, emphasizing heavy industry, was carried out by Stalin to prevent (in his words) another beating of backward Russia by the more economically advanced capitalist countries. Forced draft industrialization continues, and now the emphasis is more positive: Khrushchev has announced the goal of catching up and surpassing the United States in per capita production within the shortest possible historical period of time. This theme has been used not only as internal propaganda but also to propagate the Soviet faith abroad.

Comparison of the two economies of the US and the USSR in terms of total production of goods and services (or gross national product) will indicate the USSR's progress in its so-called "peaceful competition." Whereas Soviet GNP was about 33 percent the size of the US in 1950, by 1956 it had increased to 39 percent, and by 1962 it should be about 47 percent the size of the US. This means that the Soviet economy has been growing, and is expected to continue to grow through 1962, at a rate roughly twice that of the economy of the United States. The annual growth of GNP has been running between six and seven percent, annual growth of industry between ten and 12 percent. These rates of growth are exceedingly high. They have rarely been matched in capitalistic states except during limited periods of postwar rebuilding.

- 2 -

General Characteristics of Soviet GNP:

Soviet priorities are reflected in the relative efficiency of various sectors of the economy. The Soviets are most efficient in the production of military equipment and producer durable goods. They are least efficient in agriculture and consumer goods. When one converts Soviet gross national product by sector into US prices, using appropriate ruble-dollar ratios, and compares the results with the US gross national products, the differences in structuring of the two economies becomes rather striking. A comparison of USSR and US GNP in 1956, expressed in 1955 dollars reveals that consumption--or what the Soviet consumer receives--is less than half of GNP, while it is over two-thirds of the total in the US. Consumption has been increasing moderately in the USSR, but as a share of GNP has been held at minimum levels. Investment, on the other hand, as a proportion of GNP in the USSR is significantly higher than in the US, and, further, the investment funds in the USSR are plowed back primarily into expansion of electric power, the metallurgical base, and into the producer goods industries. In these fields it is now 80-90 percent of actual US investment in 1956. Defense, as a proportion of GNP in the USSR is significantly higher than in the US, in fact about double.

Stress on Heavy Industry

A comparison of total output in the two countries is similar to the GNP comparison. Soviet industrial production in 1956 was about 40 percent as large as that of the US. However, Soviet heavy industry is proportionately larger than this overall average, and in some instances the output of specific industries approaches that

- 3 -

of the US. Output of coal in the USSR was about 70 percent of that of the US, output of machine tools about double that of the US and steel output about half. However, the annual additions to steel capacity are now running about equal in tonnage in the two countries. Therefore, the output of the steel mill equipment industries in the two countries is about the same. Soviet writers can be expected to make the most of the fact that because of the drop in US steel production in the first quarter of this year (1958) Soviet steel will be about 75 percent of the US.

Consumer goods production comparisons provide a startling contrast with heavy industry items. USSR output of automobiles, washing machines, and refrigerators is only from two to four percent of US output.

The rapid rate of economic growth in the USSR is largely a result of this plowing back of every possible ruble into the means of production, into heavy industry.

Stress on Defense Production

Defense is another priority area in the Soviet economy. The USSR, with a gross national product about 40 percent as large as the US: receives military goods and services about equal in dollar value to those which the US is receiving. This is possible because it devotes a higher proportion of total output to military forces than does the US, the average real pay and allowances provided the Soviet serviceman, like the general standard of living, is very much lower than in the US, and the Soviet armament industry is one of the USSR's most efficient industries.

- 4 -

Industry

The USSR has a wide variety of minerals. Inadequate allocations of investment funds in the past, however, have resulted in mounting production shortfalls in some instances. Such shortfalls contributed to the decision to abandon the Sixth Five Year Plan (1956-1960). Current plans emphasize development of ferrous metallurgy in the east, and apparently during the 1960's a third metallurgical base is to be established in Siberia and Kazakhstan, supplementing the existing bases in the Urals and the Ukraine. Soviet production in relation to world output of important metals is around 20 percent for iron ore, pig iron, and crude steel and around ten percent for the more important non-ferrous metals.

The USSR is practically self-sufficient in regard to all types of primary energy production. In relation to world output the USSR produces about 20 percent of the coal and ten percent of the crude oil and electric power.

The present Soviet concern about raw material is the cumulative result of a succession of planning decisions which have stressed current growth of industrial output to the detriment of investments in raw materials exploitation facilities necessary for expansion in subsequent period. In response to the emergent raw materials problem, somewhat complicated by the satellite uprisings in the fall of 1956, Soviet planners apparently hope to provide a "breathing spell" by planning extremely modest output increases for 1957 and 1958.

- 5 -

Last fall Khrushchev gave estimates for the levels of production of various important items fifteen years hence. Attainment of these goals would bring the USSR roughly up to the present position of the US, and Khrushchev feels the gap between the two countries will be considerably reduced even though the US may make progress also.

(See Chart)

Transportation

Transportation in the USSR is largely handled by the railroads but while modernization and expansion of railways continue, civil air facilities are also being rapidly developed to help support economic growth. Railroads carry about 85 percent of freight in the USSR, a considerably larger proportion than the US figure of 49 percent. The rail net, of which about 30 percent lies east of the Urals, is broad gauge (5') and more than 76,000 route miles in length--second only to that of the US in this respect. The railroads are currently being converted from steam to electric and diesel traction.

Motor transport in the Soviet Union is negligible with only about 141,000 miles suitable for all weather operations. The merchant fleet, approximately 800 vessels, handles about five percent of total freight traffic but is handicapped by obsolescence. Modernization efforts are being made and the USSR makes heavy use of western vessels for its expanding trade with the free world. The inland waterway system consists of about 81,000 miles of water routes but heavy use of this system is hindered by the north-south flow of the main rivers and by unpredictable weather conditions.

- 6 -

AEROFLOT, the USSR's civil air carrier, has improved its domestic service in the last two years and has expanded its service to non-bloc countries although the percentage of traffic it carries is probably still negligible. Air agreements have been concluded with Finland, Austria, Afghanistan, Yugoslavia, Norway, Denmark, Sweden, and the UK. The first Soviet jet transport, the TU-104, appeared outside the bloc in March 1956 and is being used increasingly on both domestic and foreign routes. Other new aircraft including the turboprops Moskva (IL-18) and Ukraina (AN-10) are to be placed on regular routes soon.

Agriculture

The historical neglect of agriculture in the USSR has restricted the rate of increase in the standard of living for an expanding population in the past. Recently, however, the Soviet Union has let up a little on its policy of self-sufficiency in agricultural products and has been accepting some surplus agricultural commodities from underdeveloped countries as payment for industrial goods. It has also begun to give unusual attention to increasing domestic agricultural production and to "catching up with the west" in its per capita production of agricultural products. One of the most recent moves to increase the efficiency of Soviet agriculture was in January of 1958 when Khrushchev proposed the greatest organizational change since since the collectivization of Soviet agriculture in the 1930's, the reorganization of the machine tractor stations. These traditional strongholds of economic and political control in the countryside are to be converted to repair stations and their machinery sold to the

collective farms.

Grain and meat are among the country's most important agricultural products. The Soviet Union is one of the world's largest grain producers and normally enters the grain export market, although to a much lesser extent than in the prerevolutionary period. Total grain production in 1957 was around 100 million metric tons, a drop from the peak year of 1956 when the grain harvest was estimated at approximately 115 million metric tons. Substantial increases in meat and milk production in 1957 over 1956 resulted from an increase in fodder available from the record 1956 harvest.

Consumer Goods

Growth considerations, in addition to consideration for the Soviet consumer, seem to explain the current ambitious agricultural and housing programs. These ameliorative programs continue the post-Stalin trend toward supplanting coercive controls with more efficient incentives. Allocations of some key goods and services, such as housing, through the employing enterprise, will promote the desired allocation of increasingly scarce labor resources and possibly increase labor productivity.

The housing program is aimed at wiping out the housing shortage in the USSR in the next 10-12 years. The decree was issued in mid-1957 and reaffirmed the Sixth Five Year Plan housing targets at a time when the plan as a whole was being abandoned as too ambitious. This action and Khrushchev's meat and milk drive illustrate the fact that much greater attention is being devoted to the consumer than was the case under Stalin. If these programs retain their present priority,

- 8 -

per capita consumption in the USSR may go up about 20% over the next five years.

Soviet Foreign Trade

Foreign trade is used as a political instrument rather than to economic necessity by the Soviet Union. However, since Stalin's death, the basically autarchic attitude has been partly modified to allow economic interdependence among Communist bloc countries. The postwar Stalin edict against obtaining even that which was drastically superior and less expensive from the West has been abandoned.

Soviet foreign trade during the past two years with the non-Communist world has increased at a more rapid rate than that with the bloc. Estimates for 1957 indicate that nearly all of the \$1 billion increase in foreign trade is accounted for by expanded trade with the free world. In 1957 Soviet foreign trade totaled \$8.25 billion of which free world trade equaled about \$2.75 billion.

About 70 percent of the USSR's increased non-bloc trade in 1957 was with the industrial nations of Western Europe. An increasingly percentage of purchases from these countries is composed of manufactured goods including machinery and equipment for Soviet industry.

The large single items of Soviet imports from industrial countries are ships, and iron and steel products. Trade returns indicate that the USSR is widening its range of machinery and equipment purchases, however. In 1957 the USSR imported large numbers of turbines and other

- 9 -

equipment for the development of its electrical power, as well as significant imports of electrical motors. It is also increasing purchases of equipment for consumer goods industries such as textile mills, food processing plants and tobacco factories.

On the other hand, the USSR is also exporting a wider range of manufactured items to the free world. Such exports are made largely to the underdeveloped countries. Soviet trade with these areas is growing rapidly and in 1957 totaled about \$700 million, almost double that of the preceding year. At least one-third of Soviet exports to these areas now involve machinery, transport equipment and other manufactured goods.

These exports are expected to grow as the USSR further initiates deliveries under its economic development loans providing for the construction of steel plants, machine producing facilities, and a wide variety of consumer goods factories as well as equipment for power development and water conservancy. The USSR is also exporting thousands of vehicles annually to the underdeveloped areas.

The Outlook

The face of the Soviet economy 15-20 years from now and consequent industrial military posture as well as the standard of living of the average Soviet citizen depends on the future rate of growth. From 1950-1965 growth of GNP averaged about seven percent per year. Present Soviet plans for the next 15 years imply a slight decline--to about 5.5 to 6 percent a year.

- 10 -

The slight slowdown results partly from raw material problems which have arisen as the growth of the economy has demanded the exploitation of less favorably located mineral deposits. The decline has also resulted from some diversion of resources to housing and agriculture at the expense of heavy industry. This diversion, however, is intended to provide effective incentives for increased efficiency to management and labor alike.

In assessing the future, the striking flexibility of the present Soviet leaders must be considered. Khrushchev, especially, has demonstrated a willingness to abandon dogma and drastically modify established institutions as he continues the reexamination of the Soviet economy in a search for economic efficiency. His reorganization of industrial management last year and decision this year to transform agricultural institutions are the major examples of this flexibility. Another factor to be considered in assessing the future is increasing benefits of the major postwar investment in the training of industrial engineers.

The factors--flexibility--especially towards institutions, unprecedented concern with incentives and an abundance of engineering talent--may provide the foundation for overcoming managerial inefficiency which remains one of the stumbling blocks to the achievement of the long-term Soviet goals. A yardstick for measuring economic efficiency--probably a pricing system which reflects both cost and relative scarcity--is the most important missing tool for both the manager and those who must judge the manager.

- 11 -

On balance, a continuing high rate of growth for the Soviet Union can be anticipated as long as rapid growth remains a major national objective. Assuming that Khrushchev's basic improvement of the Soviet system achieve only sufficient success to prevent a further decline in the rate of growth, by 1972 the Soviet steel output would double--to between 100 and 120 million tons. The energy base would about triple with electric power output up to between 800 and 900 kilowatt hours and petroleum to between 350 and 400 million tons. Also, with no reapportionment of priorities among industrial objectives consumption for the estimated 270 million Soviet citizens would have increased, on a per capita basis, by more than 60 percent. The diet would be greatly improved and the present 13 X 13 room for the average family of four would be replaced by at least a two room apartment with kitchen and bath.

Defense expenditures will have increased--on a constant price base--to about double those of 1957, some 40 billion US 1955 dollars.

Finally the by then not so backwards nations of Asia and Africa could be receiving a billion dollars worth of aid annually.